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SUBJECT: CANADA'S SHRINKING POLICY PRIORITIES FOR 2009

REF: A. OTTAWA 001  
[1](#)B. OTTAWA 1507  
[1](#)C. OTTAWA 1516  
[1](#)D. OTTAWA 1543

Classified By: DCM Terry Breese, reason 1.4 (d)

[1](#)1. 1. (C) Summary. For the Canadian government, only three true policy priorities remain for 2009: rescuing the economy (or, more accurately, creating a public perception that it is earnestly trying to do so); remaining in power in face of new threats from the opposition parties; and, building relationships with the new U.S. Administration. While a host of other issues remain on the table -- notably, the environment and energy policy, Afghanistan, Arctic sovereignty, law and order, and Senate reform -- they will be much more tangential to the government's concentration than they were even a few months ago. End Summary.

[1](#)2. (C) The government of Conservative Prime Minister Stephen Harper enters 2009 with a much more modest and focused policy agenda than it likely could have envisioned only a few months ago, and markedly more barren than its ambitious agenda one year ago (ref a). The realities of the North American recession and international economic downturn have begun to hit Canada hard. Rightly or wrongly, the public perception is that the government has been too slow to react, too conservative in its fiscal prudence, too indifferent to the suffering of specific areas (Ontario, Quebec) and industries (auto, forestry), and too busy playing political games within the House of Commons (ref b) to concentrate on effective policies that would help the economy. The December 4 suspension of Parliament to avoid the government's loss of a confidence vote (ref c) contributed to a popular belief not only that the Conservatives were playing fast and loose with Parliamentary conventions but also were more interested in their own survival than in trying to help an increasingly ailing economy. The government's initial insistence on avoiding a budget deficit, no matter what, contrasted sharply -- and poorly with the public, although positively among most economists -- with the news Canadians heard about the massive U.S. Government bailouts and stimulus packages. Most of the Canadian public does not indeed favor deficit spending (having learned their lesson in the 1980s and 1990s), but seems to believe now that these extraordinary challenges call for unusual measures.

[1](#)3. (C) IT'S THE ECONOMY, STUPID: PM Harper and Finance Minister Flaherty have grudgingly begun to envision deficit spending caused by a significant (by Canadian standards) fiscal stimulus in 2009 of at least somewhere between C\$20 and \$30 billion, with a specific C\$2-3 billion loan package for the auto sector to complement the U.S. plan announced on December 19. As it turns out, the economy has already entered deficit territory due to lower government receipts. Details of the stimulus package remain vague, and may not become much clearer until the House of Commons resumes on January 26 to hear a new "Speech from the Throne" and the presentation of the 2009 budget. PM Harper used several end-of-the-year interviews to try, with only mild success, to

project more empathy and compassion -- qualities with which the public does not associate him. A mid-December meeting between Flaherty and his provincial and territorial counterparts marked an attempt to appear more inclusive and consultative than has been the Conservative norm, as will a similar mid-January meeting between the Prime Minister and the provincial and territorial first ministers. The likelihood of any new measures having much tangible impact on stimulating economic growth or fighting unemployment in the near future is low, but what will be important to the government is re-building an image of reliable, knowledgeable competence, especially in contrast to the opposition parties.

At least for the first six months of the year, however, the economic numbers are apt to worsen (the main reason the Conservatives forced an early election in October), so key to the government's agenda will be to create a public perception that the government has been pro-active and prescient in its efforts, leaving Canada poised for a softer landing and a quicker recovery than in the U.S. This will probably happen in any event, but the Conservatives will want to ensure that they win credit for it as much as they can. Somewhat on the flip side, the government is taking a large risk that its likely fiscal package, which many economists consider an over-stimulus, will bring high inflation in its wake about 18 months from now, for which the Conservatives could well take the blame.

14. (C) STAYING ALIVE: While prorogation of Parliament (as well as the holiday season) gave the political scene a cooling off period of sorts, the minority government will remain very much obsessed with holding onto power in the new year. It now faces an Official Opposition Liberal Party with

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a new and markedly more dynamic leader, Michael Ignatieff (ref d). The Liberals retain the option of bringing down the government on any confidence vote (including those on the Throne Speech and the budget early in the new session) and forming a coalition government with the New Democratic Party supported by the Bloc Quebecois (although this would probably not be Ignatieff's preferred option). Some Conservatives, including possibly PM Harper himself, may calculate that again forcing an early election would be preferable to seeing the Liberals rebound progressively under Ignatieff's leadership, or to letting the opposition choose the most advantageous timing and issue for bringing down the government on a vote of confidence. PM Harper has refused to rule out again pushing for an end to public financing for political parties (which would effectively cripple the three main opposition parties). Should he decide to opt for an early election in hopes of perhaps picking up a majority (still very much of a long-shot prospect), insertion of this plan in the 2009 budget would probably be as poisonous as it was in the Fall Economic and Fiscal Statement (the confidence vote in December that the government dodged by suspension). The risk of such a strategy is that the public would probably be disgusted by the prospect of yet another election so soon after the October 14 election, and, even more, by what would appear to be petty political partisanship instead of responsible politics and leadership at a time of economic troubles. Most probably, the government will maintain a conciliatory course of dialogue with the opposition on the budget, will avoid inflammatory provisions, and will survive upcoming confidence votes, coasting in office until perhaps fall 2009.

15. (C) NEW NEIGHBOR: In the best of times, successful relations with the U.S. remain of paramount importance to Canada's national interests, including its economy, national security, and role on the world stage. This will be even more true in what are becoming worsening economic times. Getting to know the new Administration will be essential to the Harper government, although the Prime Minister has reportedly let it be known that Cabinet members should not meet their incoming counterparts until he has met the new

President (the same guidance PM Harper laid down when he assumed office in 2006). President-elect Obama's overwhelming popularity among the Canadian public may make forging close relations with the new Administration politically easier for PM Harper. The government will quickly begin to push the new Administration to ease or even reverse U.S. policies that Canadians believe have led to a "thickening of the border" as well as to avoid creeping protectionism that many Canadians believe the Democrats may pursue with their control of both the White House and Congress, especially in tough economic times. There are widespread expectations that the government will move quickly to mark a new bilateral era by naming a new Ambassador to replace Michael Wilson, with the names of former Foreign Ministers John Manley and David Emerson popping up most often.

16. (C) AND ALL THE OTHER STUFF: The business of government will continue as always, with different Cabinet Ministers and federal departments continuing to push their own mandates, including important issues such as protecting the environment, alleviating climate change, asserting Arctic sovereignty, promoting military modernization, maintaining Canada's military commitment to Afghanistan through 2011 (but QCanada's military commitment to Afghanistan through 2011 (but not beyond), seeking tougher anti-crime legislation, improving intellectual property rights protection, helping Canadian farmers, placating Quebec would-be separatists, making the Senate more democratic, and playing a constructive role in the UN, G-8, NATO, OECD, OAS, APEC, ASEAN Regional Forum, and other international fora, as well as in priority assistance countries of Afghanistan, Haiti, and Sudan. One area in which the government will be forced to make near-term decisions is the energy and forestry sectors, which will be agitating for governmental support if oil prices stay low and environmental pressures increase on the energy side, and if the timber industry continues to be hard hit by a host of factors. Budget realities, however, will increasingly limit the government's options even in these areas. Canada may end up scaling back some of its more ambitious plans, including perhaps the creation of a new democracy promotion agenda. The government's legislative agenda will likely remain bare-bones, as the government and Parliament concentrate instead primarily on economic measures and policies.

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